HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Kelowna CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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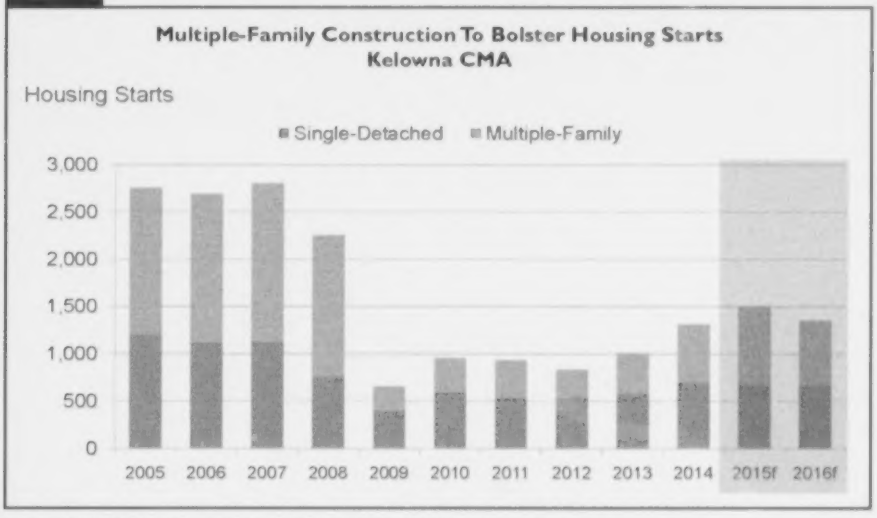
Kelowna Highlights[1]

- Growing interest in new multiple-family homes will drive housing starts higher in 2015, while stability is expected for single-detached housing starts.
- MLS® average prices are forecast to dip modestly, reflecting a shift in the composition of sales towards less expensive homes,
- Population-based demand and employment growth will increase demand for rental accommodations, leading to higher rental apartment starts.
- Employment growth will be positive over the forecast horizon.

Figure 1

Multiple-Family Construction To Bolster Housing Starts
Kelowna CMA



Source: CMHC Starts and Completion Survey, CMHC forecast

[1] The forecasts included in this document are based on information available as of April 20, 2015.

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Multiple-Family Units to Drive Housing Starts Higher

Demand for new homes in the Kelowna Census Metropolitan Area (CMA) will be supported through the forecast horizon by modest employment and population growth, in addition to low mortgage rates. This economic foundation will encourage elevated levels of housing starts in 2015 before dipping modestly in 2016. Total starts will reach 1,500 units in 2015 and 1,400 new homes in 2016 (see Figure 1).

The forecast is for stability in single-family housing starts. In 2014, 695 new single-detached homes got underway. Looking ahead to 2015 and 2016, the number of housing starts will remain close to 675 units. These years will record the highest levels of single-detached housing starts in the Kelowna area since 2008. A stable inventory of completed and unsold (unabsorbed) new single-detached homes indicates that this level of supply will be well-matched with the demand present in the marketplace (see Figure 2).

Multiple-family starts are forecast to be the source of growth in new home construction through the forecast horizon. As a result of this growth, multiple-family units will represent the majority of new home construction activity during the next 21 months, a position not held since 2008. Over the past five years, the supply of unabsorbed multiple-family homes has slowly depleted from a peak of 497 units in April 2010 to a low of 37 units in March 2015. Homebuilders responded to this build up of inventory and slower pace of demand, which led to fewer multiple-family housing starts.

Over the forecast horizon, 2015 will be the strongest year for multiple-family construction in the Kelowna area, forecast to reach 820 units, as low inventories of unabsorbed condominium apartment units and a tight purpose-built rental market encourage a temporary surge in apartment construction. Homebuilders are then expected to moderate their activity in 2016, allowing the market to absorb and react to the new supply of apartment units. Housing starts for semi-detached homes and townhouses are expected to exude stability similar to that forecast for single-detached homes, remaining in close proximity to their 10-year averages.

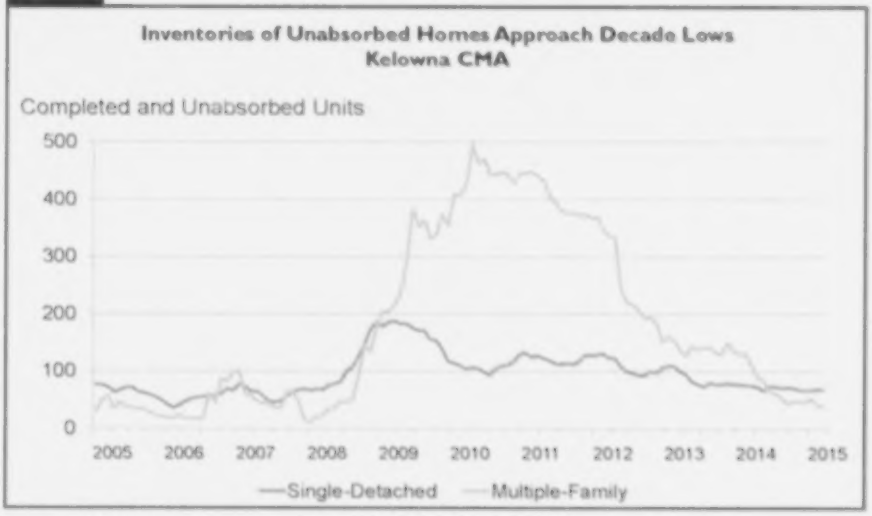
New home construction so far this year has been on par with year-earlier figures. In the Kelowna CMA there have been 213 housing starts during the first three months of 2015, compared to 209 starts in the first quarter of last year. However, it is interesting to note the compositional shift that has already begun – one towards a greater relative proportion of multiple-family starts. Multiple-family starts made up 33 per cent of first quarter 2014 starts, whereas 45 per cent of total housing starts were multiple-family units in the first quarter of this year. This trend is expected to continue throughout the remainder of the year before stepping back modestly in 2016 as fewer multiple-family projects are forecast to break ground.

Kelowna Resale Market Busy but Stable

Total residential MLS® sales in the Kelowna area are expected to take a brief reprise in 2015, declining by 8 per cent over year-earlier levels. This step backwards does not reflect a weakening within the resale market, but rather speaks to the market's transition towards stability within balanced market conditions. 2014 was a stellar year for total residential MLS® sales, with total of 4,886 homes changing hands. This level of resale

Figure 2

Inventories of Unabsorbed Homes Approach Decade Lows
Kelowna CMA



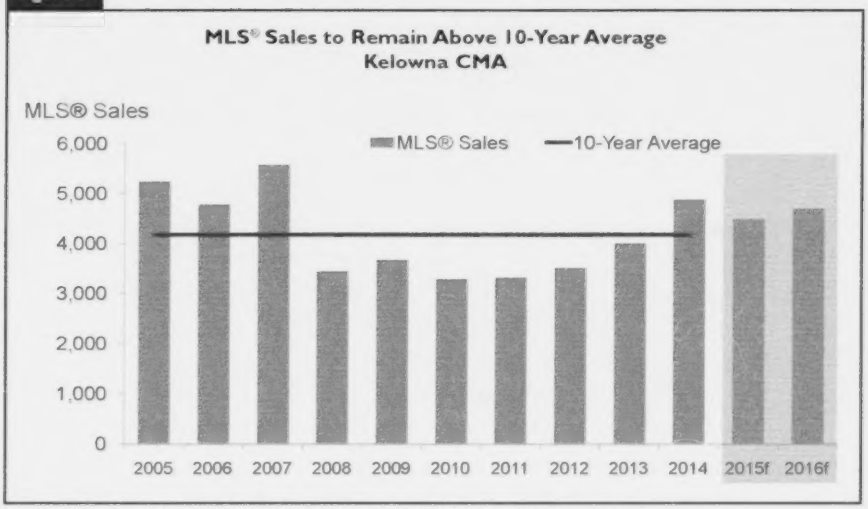
Source: CMHC Absorptions Survey. Last data point March 2014.

activity has not been recorded since 2007. After this brief pause, total residential MLS® sales will again move upwards to reach 4,700 transactions in 2016 (see Figure 3).

Activity in Kelowna's resale market has strengthened consistently over the past twenty-four months. In the most recent quarter, total residential MLS® sales increased by 27 per cent over Q1 2014 figures, an increase which was in-line with the pick-up in housing starts that began in Q1 2014. Active listings have come down from March 2014 levels, but not solely due to demand, as new listings continue to exceed sales. As a result, average resale prices have faced minimal pressure in either direction. The average price for total residential MLS® sales transacting over the first three months of 2015 was $413,666, down slightly from $419,152 in Q1 2014.

Last year, first quarter average prices were skewed somewhat as higher priced homes, particularly those priced in excess of $1 million, accounted for a greater proportion of total residential MLS® sales. This trend will begin to reverse over the next two years; fewer high-end home sales will make average prices appear to be lower compared to last year. Total residential MLS® average prices are forecast to decline 1.4 per cent in 2015 to $420,000 due to these compositional effects and will not represent a change in property valuation for a home common to both years. Growth in average prices will turn positive again in 2016 as the composition of homes selling in Kelowna normalizes and becomes more reflective of expected balanced market conditions.

Figure 3



Source: Okanagan Mainline Real Estate Board (OMREB), CMHC forecast.
MLS® Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

This compositional effect will be most pronounced within the single-detached resale home segment, as most homes that sold last year in excess of $1 million were single-detached homes. Average single-detached home prices will decline in 2015 from $541,898 to $525,000 and then grow to $540,000 in 2016.

Rental Vacancy Rate Set to Edge Higher

Demand for rental accommodations has been steadily growing in the Kelowna CMA for the past five years. Post-secondary students and newcomers to the area have been the primary sources of rental demand, supplemented by local residents who have also chosen to rent rather than own. The current population profile for Kelowna suggests that population growth over the next two years[2] will be largely from migratory sources and concentrated in the 25-44 and 65 and older age cohorts. People that are new to a community and within these age ranges are generally more likely to rent upon arrival, giving them time to get familiar with the area.

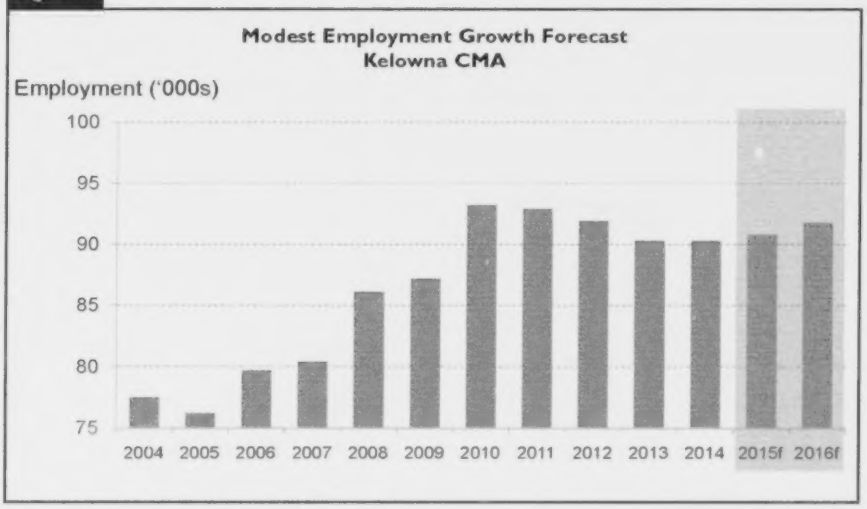
Rising demand for rental accommodations in the Kelowna CMA has outpaced growth in supply and resulted in a rental apartment vacancy rate of 1.0 per cent[3] as of October 2014. This dynamic has left the market ripe for a fresh supply of purpose-built rental accommodations. As a result, purpose-built rental apartment starts are expected to increase in 2015, particularly around the areas of the University of British Columbia – Okanagan Campus (UBC Okanagan) and Kelowna General Hospital. Purpose-built rental apartment units will make up the majority of the new apartment units breaking ground in 2015, the rest will be condominium tenure.

[2] BC Stats' Sub-Provincial People Projections (P.E.O.P.L.E 2014), CMHC calculations, CMHC forecast.

[3] CMHC's 2014 Fall Rental Market Survey.

Rental vacancy rates are forecast to edge upwards to 1.5 per cent in 2015 and to 1.7 per cent in 2016 as the supply of market rental housing within both the primary and secondary markets grows. The secondary rental market consists of investor-owned condominiums, as well as other types of rental housing, including a growing number of secondary suites and carriage houses[4]. The additional supply of new rental units will ease upward pressures on average rents, allowing rents to remain modest and generally follow inflation.

Figure 4



Source: Statistics Canada, CMHC forecast.

Employment and Population Gains Set for Kelowna

Employment growth in the Kelowna area will be supportive of housing demand over the forecast horizon. Over the first three months of 2015, employment levels gained 2.9 per cent[5] over the same period a year ago. This, however, is not indicative of a strong upward momentum in the labour market. First quarter employment levels have fluctuated within the tight band of 88,000 and 92,000 employed persons for the past six years. Additionally, annual average employment levels typically declined. 2014 was the exception to this trend, with employment levels coming in exactly on par with levels recorded in 2013.

Although 2015 is off to a strong start on the employment front, gains are expected to moderate by year-end. Employment is forecast to grow by 0.6 per cent in 2015 and 1.1 per cent in 2016. This will equate to 500 additional positions in 2015 and 1,000 positions in 2016, with a growing emphasis on full-time jobs rather than part-time jobs. This improvement within the labour market will draw people to the region, and encourage people to enter or to consider re-entering the workforce. This will cause the number of people actively looking for work to exceed employment growth, which will push the unemployment rate upwards. The unemployment rate is forecast to move upwards from 4.6 per cent in 2014 to 5.9 per cent in 2015 and 6.2 per cent in 2016.

An increase in business investment and new employment opportunities across the Kelowna CMA will attract people to the region. Population growth is projected to add more than 3,000 people to the region each year for the next five years[6], with growth being slightly stronger over the forecast horizon. This will translate into gains of approximately 1,600 new households[7] annually in both 2015 and 2016.

The majority of the population growth will come from migratory sources. Intraprovincial migration, which brings people to the Kelowna area from other areas of British Columbia, will be the largest contributor. People moving from other provinces and territories across Canada will be another growing segment of Kelowna's migratory profile for 2015 and 2016. It is forecast that 2,800 people will migrate to the Kelowna CMA in 2015, and an additional 3,100

[4] The City of Kelowna's 2014 Development Statistics report cited a 56 per cent increase in building permits for secondary suites and carriage houses, receiving permits for 138 units in 2013 and 216 units in 2014.

[5] BC Stats' Labour Force Survey.

[6] BC Stats' Sub-Provincial People Projections (P.E.O.P.L.E 2014), CMHC calculations.

[7] BC Stats' Sub-Provincial People Projections (P.E.O.P.L.E 2014), CMHC calculations.

will move there in 2016. BC Stats estimates that 2,654 people relocated to the Kelowna CMA in 2014.

The Kelowna International Airport and associated business cluster, as well as UBC Okanagan, remain key regional employment hubs. Improved accessibility to the Okanagan region as a result of the airport expansion will enhance the area's appeal to tourists and businesses. The Kelowna General Hospital expansion and the development of the Interior Heart and Surgical Centre are also contributing to employment growth and are attractive amenities for those seeking to relocate to Kelowna. The positive impact of these sectors to Kelowna's economy and employment base all contribute to an increased demand for housing.

Mortgage rates are expected to remain at or close to current levels over the forecast horizon

Mortgage rates will continue to be supportive of housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain at or very close to current levels over the forecast horizon.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.30 to 3.50 per cent range, while the five-year rate is forecast to be within the 4.00 to 5.50 per cent range. For 2016, the one-year mortgage rate is expected to be in the 2.40 to 4.00 per cent range, while the five-year rate is forecast to be within the 4.20 to 6.20 per cent range.

Trends at a Glance

Key factors and their effects on housing starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Population	Population growth in the Kelowna area will tread forward steadily over the forecast horizon, supporting housing demand. Intraprovincial migration (people moving into the region from other areas of the province) will continue to be the main driver of population and household growth.
Employment	Total employment grew by 2.9 per cent over the first three months of 2015, compared to the same period of 2014. Housing demand will benefit from higher employment levels.
Income	Real average weekly earnings were 0.3 per cent lower in 2014. This result is expected to shift demand towards less expensive housing options in 2015 and 2016, including rental and denser (multiple-family) housing forms.
Resale Market	Total residential MLS® sales have picked up notably in Q1 2015, which has been equally met by an increase in new listings. Following an active 2014, resale transactions will moderate back towards a trend level consistent with a balanced market for 2015 and 2016.
Supply of Newly Completed and Unabsorbed Units	The inventory of completed and unabsorbed units continues to edge lower in 2015. This will support new home construction activity of single-detached and multiple-unit home types.
Vacancy Rates[8]	Vacancy rates for the Kelowna area are forecast to move upwards modestly in response to the introduction of new purpose-built rental units over the forecast horizon. Demand for rental accommodations will continue to grow, keeping rent increases in-line with inflation.

Forecast Risks

This outlook is subject to upside and downside risks, including but not limited to the following:

- A prolonged period of lower oil prices could discourage demand from Albertans for recreational properties in the Kelowna area. Alternatively, more people moving to the region from other parts of Canada could boost demand for housing.
- A strong US dollar and growing US economy could boost tourism- and export-related industries in the Kelowna region, fuelling growth in tourism-, retail-, and manufacturing-based employment.
- Canadian debt levels remain elevated relative to income levels, leaving households vulnerable to adverse shocks. Should interest rates rise quickly or employment conditions deteriorate, some households that are more heavily indebted might be forced to liquidate their assets, which could include their primary residence. This would add to the supply of housing and could place downward pressure on prices.
- There are a number of inactive multiple-family projects in Kelowna. These are projects that have already started but were put on hold due to a decline in demand. Should developers decide to return to inactive multiple-family projects in Kelowna rather than start new projects, multiple-family housing starts could be lower than forecast.

[8] The apartment vacancy rate is for purpose-built rental apartments.

Forecast Summary
Kelowna CMA
Spring 2015

	2012	2013	2014	2015(F)	% chg	2016(F)	% chg
New Home Market							
Starts:							
Single-Detached	544	579	695	680	-2.2	675	-0.7
Multiples	292	434	616	820	33.1	725	-11.6
Semi-Detached	68	100	163	130	-20.2	135	3.8
Row/Townhouse	126	103	182	150	-17.6	160	6.7
Apartments	98	231	271	540	99.3	430	-20.4
Starts - Total	836	1,013	1,311	1,500	14.4	1,400	-6.7
Average Price ($):							
Single-Detached	737,419	754,024	695,212	700,000	0.7	710,000	1.4
Median Price ($):							
Single-Detached	589,450	589,900	599,000	580,000	-3.2	590,000	1.7
New Housing Price Index (% chg) (B.C.)	-0.8	-1.0	-1.2	-0.6	-	0.6	-
Resale Market							
MLS® Sales	3,515	4,016	4,886	4,500	-7.9	4,700	4.4
MLS® New Listings	8,847	8,278	8,466	8,500	0.4	8,650	1.8
MLS® Average Price ($)	501,073	490,703	541,970	525,000	-3.1	540,000	2.9
Rental Market							
October Vacancy Rate (%)	4.0	1.8	1.0	1.5	0.5	1.7	0.2
Two-bedroom Average Rent (October) ($)	927	970	980	1,000	2.0	1,020	2.0
One-bedroom Average Rent (October) ($)	750	778	788	805	2.2	820	1.9
Economic Overview							
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.30 to 3.50	-	2.40 to 4.00	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.00 to 5.50	-	4.20 to 6.20	-
Annual Employment Level	91,900	90,300	90,300	90,800	0.6	91,800	1.1
Employment Growth (%)	-1.1	-1.7	0.0	0.6	-	1.1	-
Unemployment rate (%)	6.5	6.6	4.6	5.9	-	6.2	-
Net Migration (B.C.)	26,749	33,625	43,932	43,900	-0.1	43,300	-1.4

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM), OMREB (Okanagan Mainline Real Estate Board).

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over.

(1) MLS® Sales and New Listings = Total Residential. (2) MLS® Average Sale Price = Single Family Residential.

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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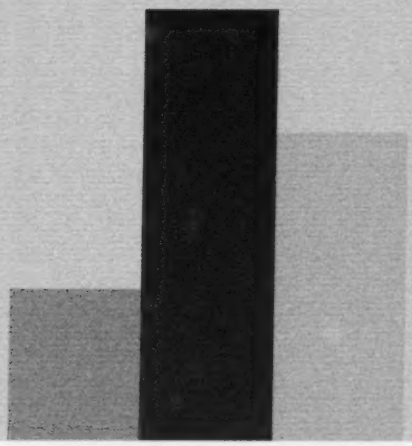

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